

ORIGINAL
OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

DOCKETED

NOV -7 2006

TO: THE COMMISSION

AZ CORP COMMISSION
DOCUMENT CONTROL

FROM: Utilities Division

DATE: November 7, 2006

DOCKETED BY	NR
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RE: IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY FOR A CAPACITY RESERVATION CHARGE TARIFF FOR ITS NEW WASTEWATER CERTIFICATE OF CONVENIENCE AND NECESSITY EXTENSION AREAS (DOCKET NO. SW-01428A-06-0444)

Introduction

On July 5, 2006, Litchfield Park Service Company – Wastewater Division (“Company”) filed a request for approval for a Capacity Reservation Charge Tariff. This proposed tariff would apply only to new developments for which the Company would be required to seek an extension of its Certificate of Convenience and Necessity (“CC&N”). The Company’s proposed tariff differs from Staff’s general hook-up fee tariff template.

The Company serves Litchfield Park and surrounding areas in the West Valley of Maricopa County. The wastewater system consists of a 4.1 million gallon per day treatment plant, three lift stations and approximately 287 miles of force/collection mains serving approximately 13,000 service laterals.

Suspension of Time

On July 12, 2006, at Staff’s request, the Company filed a letter requesting a 30-day suspension to provide Staff more time for its review. On July 26, 2006, Commissioner Mayes docketed a letter under Docket No. SW-01428A-05-0022 (CC&N extension) requesting Staff to investigate the on-going odor problem at the Company’s Palm Valley Water Reclamation Facility. In Decision No. 68923 (dated August 29, 2006), the Commission suspended this requested tariff filing for a period of 90 days and further ordered Staff to report back to the Commission on its investigation of the odor problems at the Palm Valley Water Reclamation Facility.

Odor Problem

On October 4, 2006, Staff filed its compliance staff report per Decision No. 68923 by concluding that:

1. On September 15, 2006, Staff and the Company detected a "skunky" smell from the Company's Palm Valley Water Reclamation Facility, the wastewater treatment plant ("WWTP").
2. Phase 1 – short-term solution, the Company is currently addressing the odor problem by the installation of a "pilot test" polisher - a carbon adsorption unit to provide additional polishing of foul air - that began on September 15, 2006. The Company has applied for an Approval To Construct from Maricopa County and on September 28, 2006, Maricopa County issued an Approval To Pre-Purchase Equipment for approval to procure a 16,000-cfm carbon adsorption unit to provide additional polishing of foul air following the chemical scrubbing unit.

(According to the Company, this carbon adsorption unit has been ordered and is being fabricated by Daniel Environmental and is expected to be installed by the end of 2006.)

3. Phase 2 – long-term solution, the Company is considering replacement of existing undersized odor control equipment with an estimated construction schedule to begin the third quarter of 2007.
4. The Company also hired a consulting firm to study the options of increasing its WWTP capacity.

Based on its review, Staff concurred with the Company's remedies and recommended that the Company submit monthly reports in Docket No. SW-01428A-05-0022 regarding updated odor control and plant capacity activity until the addition of the new WWTP capacity is completed.

Arizona Department of Environmental Quality ("ADEQ") Compliance

The Company is currently operating in compliance with Arizona Department of Environmental Quality regulations.

Company's Proposed Tariff

The Company's proposed Capacity Reservation Charge of \$2,450 per service lateral would be applicable to (1) all new service laterals requiring a main extension agreement located in an area that is not, at the time of the request for service, located within the area certificated by the Commission and for which the Company will seek a CC&N, or (2) to the equivalent number of service laterals receiving service related to a wholesale agreement under which the Company provides treatment services for a development located outside of the Company's existing CC&N.

The Company's proposed fee of \$2,450 was calculated based on an assumed wastewater flow rate of 320¹ gallons per day ("GPD") per household multiplied by an estimated treatment cost of \$7.60 per gallon ($320 \times 7.60 = 2,432$ rounded to 2,450). The \$7.60 per gallon is an estimate based on the current cost of a plant similar to the Company's Palm Valley Water Reclamation Facility.

Staff's Analysis and Proposed Tariff

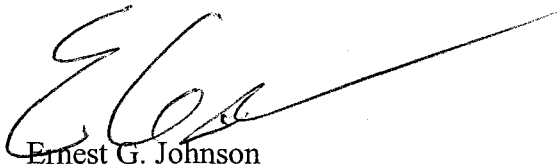
Staff has reviewed the Company's proposed fee of \$2,450 per service lateral, its supporting data and would recommend this proposed fee be adopted.

Staff further recommends the Company's proposed tariff language not be approved. The Company's proposed tariff would apply only to new developments for which the Company would be required to seek an extension of its CC&N. Staff believes that the cost of off-site facilities should be charged to all new service laterals that would be served by the common facilities. For this reason, the Company's proposed tariff language should be rejected.

Staff's Recommendation

Staff recommends approval of the Company's Off-Site Facilities Hook-Up Fee Tariff as modified by Staff and reflected in Staff's attached Tariff Schedule.

Staff further recommends that the modified Off-Site Facilities Hook-Up Fee Tariff not become effective until the Phase 1 carbon absorption unit has been installed, is in operation, and the Company submits a letter from the Maricopa County Environmental Services Department, or ADEQ, stating that the odor problem has been resolved.



Ernest G. Johnson
Director
Utilities Division

EGJ:MSJ:lm\RM

ORIGINATOR: Marlin Scott, Jr.

¹ Assumes 100 gallons per day per resident and 3.2 residents per household.

TARIFF SCHEDULE

UTILITY: Litchfield Park Service Company - Wastewater
DOCKET NO.: SW-01428A-06-0444

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE FACILITIES HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to **Litchfield Park Service Company – Wastewater Division** (“the Company”) pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment plant facilities among all new service laterals. These charges are applicable to all new service laterals established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company’s establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission’s (“Commission”) rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

“Applicant” means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builder of new residential subdivisions.

“Company” means Litchfield Park Service Company – Wastewater Division.

“Collection Main Extension Agreement” means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities to the Company to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as “Wastewater Facilities Agreement”.

“Off-site Facilities” means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system.

“Service Lateral” means and includes all service laterals for single-family residential or other uses.

III. Off-Site Facilities Hook-up Fee

For each new service lateral, the Company shall collect an off-site facilities hook-up fee of \$2,450, based on the Residential Equivalent Unit of 320 gallons per day.

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

(1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder when operational acceptance is issued for the on-site wastewater facilities constructed to serve the improvement.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges

hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(G) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(H) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(I) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(J) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JEFF HATCH-MILLER

Chairman

3 WILLIAM A. MUNDELL

Commissioner

4 MIKE GLEASON

Commissioner

5 KRISTIN K. MAYES

Commissioner

6 BARRY WONG

Commissioner

8 IN THE MATTER OF THE APPLICATION OF
9 LITCHFIELD PARK SERVICE COMPANY FOR
10 A CAPACITY RESERVATION CHARGE
11 TARIFF FOR ITS NEW WASTEWATER
12 CERTIFICATE OF CONVENIENCE AND
13 NECESSITY EXTENSION AREAS

DOCKET NO. SW-01428A-06-0444

DECISION NO. _____

ORDER

13 Open Meeting
14 November 21 and 22, 2006
15 Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Litchfield Park Service Company – Wastewater Division (“Company”) is certificated to
18 provide wastewater as a public service corporation in the State of Arizona.

19 2. On July 5, 2006, the Company filed a request for approval for a Capacity Reservation
20 Charge Tariff.

21 3. The proposed tariff would apply only to new developments for which the Company
22 would be required to seek an extension of its Certificate of Convenience and Necessity. The Company’s
23 proposed tariff differs from Staff’s general hook-up tariff template.

24 4. The Company serves Litchfield Park and surrounding areas in the West Valley of
25 Maricopa County. The wastewater system consists of a 4.1 million gallon per day treatment plant, three
26 lift stations and approximately 287 miles of force/collection mains serving approximately 13,000 service
27 laterals.

28 ...

1 5. On July 12, 2006, at Staff's request, the Company filed a letter requesting a 30-day
2 suspension to provide Staff more time for its review.

3 6. On July 26, 2006, Commissioner Mayes docketed a letter under Docket No.
4 SW-01428A-05-0022 requesting Staff to investigate the on-going odor problem at the Company's Palm
5 Valley Water Reclamation Facility.

6 7. In Decision No. 68923 (dated August 29, 2006), the Commission suspended this
7 requested tariff filing for a period of 90 days and further ordered Staff to report back to the Commission
8 on its investigation of the odor problems at the Palm Valley Water Reclamation Facility.

9 8. On October 4, 2006, Staff filed its compliance staff report per Decision No. 68923 by
10 concluding that:

11 a. On September 15, 2006, Staff and the Company detected a "skunky" smell from the
12 Company's Palm Valley Water Reclamation Facility, the wastewater treatment plant
13 ("WWTP").

14 b. Phase 1 – short-term solution, the Company is currently addressing the odor problem by the
15 installation of a "pilot test" polisher - a carbon adsorption unit to provide additional polishing
16 of foul air - that began on September 15, 2006. The Company has applied for an Approval
17 To Construct from Maricopa County and on September 28, 2006, Maricopa County issued an
18 Approval To Pre-Purchase Equipment for approval to procure a 16,000-cfm carbon
19 adsorption unit to provide additional polishing of foul air following the chemical scrubbing
20 unit.

21 (According to the Company, this carbon adsorption unit has been ordered and is being
22 fabricated by Daniel Environmental and is expected to be installed by the end of 2006.)

23 c. Phase 2 – long-term solution, the Company is considering replacement of existing undersized
24 odor control equipment – with an estimated construction schedule to begin the third quarter
25 of 2007.

26 d. The Company also hired a consulting firm to study the options of increasing its WWTP
27 capacity.

28 9. Based on its review, Staff concurred with the Company's remedies and recommended
that the Company submit monthly reports in Docket No. SW-01428A-05-0022 regarding updated odor
control and plant capacity activity until the addition of the new WWTP capacity is completed.

...

10. The Company is currently operating in compliance with Arizona Department of Environmental Quality regulations.

11. The Company's proposed Capacity Reservation Charge of \$2,450 per service lateral would be applicable to (1) all new service laterals requiring a main extension agreement located in an area that is not, at the time of the request for service, located within the area certificated by the Commission and for which the Company will seek a CC&N, or (2) to the equivalent number of service laterals receiving service related to a wholesale agreement under which the Company provides treatment services for a development located outside of the Company's existing CC&N.

12. The Company's proposed fee of \$2,450 was calculated based on an assumed wastewater flow rate of 320¹ gallons per day ("GPD") per household multiplied by an estimated treatment cost of \$7.60 per gallon ($320 \times 7.60 = 2,432$ rounded to 2,450). The \$7.60 per gallon is an estimate based on the current cost of a plant similar to the Company's Palm Valley Water Reclamation Facility.

13. Staff has reviewed the Company's proposed fee of \$2,450 per service lateral, its supporting data and would recommend this proposed fee be adopted.

14. Staff further recommends the Company's proposed tariff language not be approved. The Company's proposed tariff would apply only to new developments for which the Company would be required to seek an extension of its CC&N. Staff believes that the cost of off-site facilities should be charged to all new service laterals that would be served by the common facilities. For this reason, the Company's proposed tariff language should be rejected.

15. Staff recommends approval of the Company's Off-Site Facilities Hook-Up Fee Tariff as modified by Staff and reflected in Staff's attached Tariff Schedule.

16. Staff further recommends that the modified Off-Site Facilities Hook-Up Fee Tariff not become effective until the Phase 1 carbon absorption unit has been installed, is in operation, and the odor problem has been resolved.

17. Staff further recommends that the Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month

¹ Assumes 100 gallons per day per resident and 3.2 residents per household.

1 period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report
2 shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the
3 amount of money spent from the account, the amount of interest earned on the tariff account, and a list
4 of all facilities that have been installed with the tariff funds during the 12 month period.

5 CONCLUSIONS OF LAW

6 1. The Company is an Arizona public service corporation within the meaning of Article XV,
7 Section 2, of the Arizona Constitution.

8 2. The Commission has jurisdiction over the Company and of the subject matter in this
9 Application.

10 3. Approval of the filing does not constitute a rate increase as contemplated by A.R.S.
11 Section 40-250.

12 3. The Commission, having reviewed the application and Staff's Memorandum dated
13 November 7, 2006, concludes that the Off-Site Facilities Hook-Up Fee Tariff, as amended by Staff, is
14 reasonable, fair and equitable and therefore is in the public interest.

15
16 ORDER

17 IT IS THEREFORE ORDERED that Litchfield Park Service Company – Wastewater Division's
18 application for a tariff schedule to implement an Off-Site Facilities Hook-Up Fee as amended by Staff,
19 be and hereby is approved as discussed herein.

20 IT IS FURTHER ORDERED that the modified Off-Site Facilities Hook-Up Fee Tariff not
21 become effective until the Phase 1 carbon absorption unit has been installed, is in operation, and the
22 Company files a letter with Docket Control, as a compliance item in this matter, from the Maricopa
23 County Environmental Services Department, or ADEQ, stating that the odor problem has been resolved.

24 IT IS FURTHER ORDERED that Litchfield Park Service Company – Wastewater Division shall
25 file with Docket Control as a compliance item, a copy of the Off-Site Facilities Hook-Up Fee Tariff as
26 per the attached tariff schedule within 30 days of a decision in this matter.

27 IT IS FURTHER ORDERED that Litchfield Park Service Company – Wastewater Division shall
28 submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket

Control, as a compliance item in this docket, for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2006.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:MSJ:lh\RM

1 SERVICE LIST FOR: Litchfield Park Service Company
2 DOCKET NO. SW-01428A-06-0444

3 Mr. Richard L. Sallquist, Esq.
4 Sallquist, Drummond & O'Connor, P.C.
5 4500 South Lakeshore Drive, Suite 339
6 Tempe, Arizona 85282

7 Mr. Bob Dodds, General Manager
8 Litchfield Park Service Company
9 12725 West Indian School Road, Suite D-101
10 Avondale, Arizona 85323

11 Mr. Ernest G. Johnson
12 Director, Utilities Division
13 Arizona Corporation Commission
14 1200 West Washington Street
15 Phoenix, Arizona 85007

16 Mr. Christopher C. Kempley
17 Chief Counsel
18 Arizona Corporation Commission
19 1200 West Washington Street
20 Phoenix, Arizona 85007
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28

TARIFF SCHEDULE

UTILITY: Litchfield Park Service Company - Wastewater
DOCKET NO.: SW-01428A-06-0444

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE FACILITIES HOOK-UP FEE

I. Purpose and Applicability

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(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(G) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(H) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(I) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(J) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2008, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.